FDIC State Profile

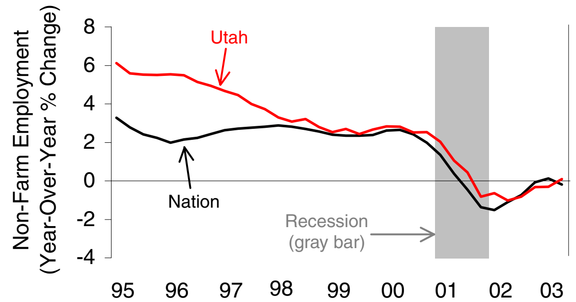
FALL 2003

Utah

Utah non-farm employment growth was flat in the second quarter of 2003, compared to same quarter one year earlier.

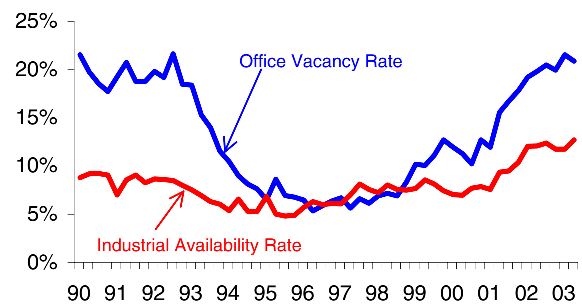
- While total non-farm employment was relatively stable during the year ending second quarter 2003 (see Chart 1), the manufacturing and leisure and hospitality sectors experienced job losses. Employment growth in the information and financial service sectors offset these declines.
- Job losses in the manufacturing sector were centered in computer and electronics manufacturing, which declined year-over-year by 7 percent as of second quarter 2003. A continued contraction in venture capital funding contributed to weakness in the state's high-tech manufacturing industry. During 2002, venture capital investment in Utah declined by 85 percent from its peak level in 2000.
- Employment in the leisure and hospitality sectors decreased year-over-year by 2 percent during the year ending second quarter 2003. Job loss in this sector is an additional sign that Utah tourism remains sluggish. The May 2003 Utah hotel vacancy rate was slightly higher than one year ago, while nightly room charges had slightly declined.[1]
- Construction employment declined by 1 percent during the year ending second quarter 2003 as a result of the completion of building related to the 2002 Winter Olympics.

Chart 1: Utah Employment Declined Significantly during the Last Recession



Source: Bureau of Labor Statistics

Chart 2: Vacancy Rates in Salt Lake City Continue to Rise as of Second Quarter 2003



Source: Torto Wheaton Research

Commercial real estate (CRE) market deterioration in the Salt Lake City MSA could adversely affect a significant number of insured institutions.

- The second quarter 2003 office vacancy rate of 21 percent in the ***Salt Lake City*** metropolitan statistical area (MSA) was 35 percent higher than its 2001 level and is, in part, a reflection of continued weakness in the high-tech sector (see Chart 2). Vacancy rates in the industrial property sector have similarly increased, rising 37 percent from their second quarter 2001 level.
- Deterioration in Salt Lake City's CRE markets is a concern, because most established community institutions headquartered within the MSA hold high CRE loan[2] concentrations. The median CRE loan-to-Tier 1 capital ratio among this group of institutions was 455 percent as of March 31, 2003, up from 157 percent ten years earlier. Rising construction and development (C&D) loan concentrations, one of the traditionally higher-risk components of CRE lending, contributed materially to the trend. Over the past decade, the median C&D loan-to-Tier 1 capital ratio reported among established community institutions based in the Salt Lake City MSA increased more than five-fold, from 32 percent to 164 percent.

[1] "Utah Hotel Vacancies in May Higher Than a Year Ago," *The Salt Lake Tribune*, June 24, 2003.

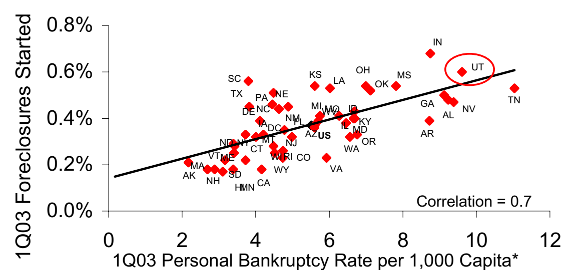
[2] CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

- Softer CRE conditions may have adversely affected credit quality among banks operating in the market. The first quarter 2003 median past-due CRE loan ratio among established community institutions headquartered in the Salt Lake City MSA was 1.67 percent, down from 3.83 percent one year earlier, but still the highest median past-due CRE loan ratio of any major MSA in the San Francisco Region.[3]

Job losses and high debt levels contributed to increased bankruptcy and foreclosure activity in Utah.

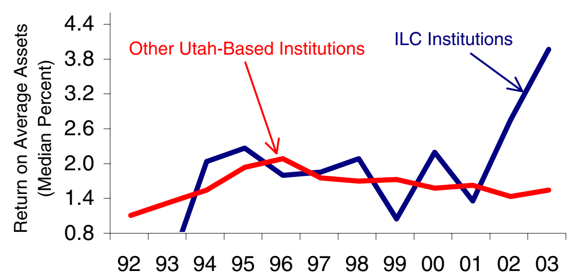
- Utah continues to report one of the highest personal bankruptcy and foreclosure start rates in the nation as of first quarter 2003 (see Chart 3). Declines in employment, larger family sizes, and higher debt levels have been attributed as possible reasons for this phenomenon.[4]
- Mortgage Bankers Association of America survey data suggest a high level of foreclosure activity, increasing from prior quarters. Consistent with that trend, the Loan Performance Corporation reports Utah's level of seriously delinquent subprime mortgages remain significantly higher than national averages. Among Utah-based established community institutions, the median past-due 1-4 family mortgage ratio rose from 2.79 to 3.07 percent during the year ending March 31, 2003.
- Utah was recently ranked last in the nation in a study of home price appreciation over the past five years.[5] Sluggish home values could increase credit risk for Utah consumer and mortgage lenders.
- The median past-due consumer loan ratio among the 26 established community institutions[6] headquartered in Utah declined from 2.70 percent to 2.65 percent during the year ending March 31, 2003, while the median consumer loan net charge-off ratio has remained mostly unchanged, decreasing from 0.53 percent to 0.51 percent.

Chart 3: Foreclosures Correlated to Personal Bankruptcies in the First Quarter 2003



*Note: The bankruptcy rate was estimated using personal bankruptcies for full year ended 1Q03 and population figures for the year 2001.
Source: U.S. Courts, Bureau of Econ. Analysis, and Mortgage Bankers Assoc.

Chart 4: Utah-Based ILCs Outperform Other Utah-Based Institutions



Note: ILC = Industrial Loan Corporation.
Source: Utah Bank and Thrift Call Reports (March of each year)

During 2002, interest rate declines pressured earnings among non-specialty institutions, but boosted profits among established specialty[7] lenders.

- Despite declines in net interest margin (NIM), the median return on average assets (ROA) ratio reported by all Utah-based insured institutions through first quarter 2003 increased year-over-year from 1.53 percent to 1.77 percent. Reduced overhead and a decline in the cost of funding earning assets contributed to the improvement.
- Institutions chartered as Industrial Loan Corporations (ILCs), accounting for 40 percent of insured institutions headquartered in the state, reported much stronger ROA performance (see Chart 4). These companies often pursue higher-risk, higher-yielding loan niches or have non-traditional balance sheet structures. Most of these institutions reported persistently high asset yields and largely non-core, rate-sensitive funding bases, and as a result, widening NIMs during 2001 and 2002.

[3] Based upon a comparison of first quarter 2003 median past-due CRE loan ratios within 18 MSAs, in which at least 5 established community institutions with CRE loans were headquartered.

[4] Thredgold, Jeff. "Utah Outlook," Summer 2003, www.thredgold.com.

[5] Mitchell, Leslie. "Utah Home Values Level Off," *The Salt Lake Tribune,* July 17, 2003.

[6] Established community institutions are defined as insured institutions open more than three years, with less than $1 billion in total assets. Industrial loan companies and specialty institutions are excluded from the definition.

[7] Established specialty lenders include insured institutions open more than three years with loan-to-asset ratios below 25 percent, unfunded credit cards exceeding total assets, and consumer loan-to-Tier 1 capital ratios exceeding 300 percent.

Utah at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	60	59	62	55	53
Total Assets (in thousands)	132,587,053	129,056,441	112,032,498	67,733,308	46,333,826
New Institutions (# < 3 years)	10	12	15	11	12
New Institutions (# < 9 years)	26	27	29	22	20

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	12.08	12.96	12.48	12.63	12.59

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	3.31%	4.85%	3.63%	3.10%	3.03%
Past-Due and Nonaccrual >= 5%	17	27	22	8	14
ALLL/Total Loans (median %)	1.57%	1.79%	1.76%	1.78%	1.73%
ALLL/Noncurrent Loans (median multiple)	1.69	1.80	1.56	1.81	1.98
Net Loan Losses/Loans (aggregate)	2.40%	3.32%	2.59%	2.33%	2.54%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	4	7	11	5	6
Percent Unprofitable	6.67%	11.86%	17.74%	9.09%	11.32%
Return on Assets (median %)	1.73	1.47	1.53	1.84	1.75
25th Percentile	1.02	0.80	0.54	1.05	0.89
Net Interest Margin (median %)	5.51%	5.66%	5.90%	5.79%	5.72%
Yield on Earning Assets (median)	7.19%	7.96%	9.57%	9.20%	8.91%
Cost of Funding Earning Assets (median)	1.71%	2.15%	3.76%	3.57%	3.08%
Provisions to Avg. Assets (median)	0.42%	0.43%	0.44%	0.23%	0.32%
Noninterest Income to Avg. Assets (median)	1.78%	1.39%	1.35%	1.76%	1.85%
Overhead to Avg. Assets (median)	3.67%	4.08%	4.87%	4.13%	4.47%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	88.71%	87.68%	85.13%	85.86%	78.77%
Loans to Assets (median %)	72.99%	72.72%	68.91%	65.38%	65.07%
Brokered Deposits (# of institutions)	31	28	24	17	14
Bro. Deps./Assets (median for above inst.)	23.73%	21.64%	31.63%	31.51%	22.70%
Noncore Funding to Assets (median)	24.76%	25.64%	20.93%	21.64%	18.14%
Core Funding to Assets (median)	44.85%	49.63%	48.71%	52.77%	65.70%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	43	42	43	37	36
National	7	7	8	8	8
State Member	6	6	6	6	6
S&L	1	1	1	1	1
Savings Bank	3	3	4	3	2
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets ($000s)	% Inst.	% Assets
Salt Lake City-Ogden UT	41	129,693,758	68.33%	97.82%
No MSA	12	1,494,044	20.00%	1.13%
Provo-Orem UT	7	1,399,251	11.67%	1.06%